

FISCAL NOTE

Bill #: SB0519

Title: Revising types of property in classes nine and thirteen

Primary Sponsor: Elliott, J

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	(\$818,000)	\$4,945,000
Revenue:		
General Fund	\$8,485,148	\$8,482,250
State Special Revenue	\$532,931	\$532,749
Net Impact on General Fund Balance:	\$9,303,148	\$3,537,250

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. SB 519 changes the property classification of existing (constructed prior to January 1, 2005) generating facilities owned and operated by exempt wholesale generators from class 13 (taxable rate 6%), to class 9 (taxable rate 12%). An exempt wholesale generator (EWG) has no retail customers and is exempt from rate regulation by federal and state regulatory agencies. EWGs sell their power on the wholesale market at open market prices.
2. PPL Montana operates its hydroelectric and coal-fired generating plants in Montana as an exempt wholesale generator (EWG). PPL Montana's generation property is located in 10 counties: Cascade, Yellowstone, Lewis & Clark, Gallatin, Flathead, Lake, Madison, Rosebud, Stillwater, and Sanders. All of PPL Montana's generating assets would move from class 13 with a tax rate of 6%, to class 9 with a tax rate of 12%.
3. As the operating partner, PPL Montana operates all of the Colstrip generation facilities. Therefore, this section would move the Colstrip generation assets of the other Colstrip partners (Puget Sound Power, Avista Corporation, PacifiCorp, Portland General, and NorthWestern Energy) from class 13, to class 9 as well.

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4. Tiber Montana LLC installed a 7.5 MW hydro generation facility at Tiber Dam in Liberty County, and started generating electricity in June 2004. Tiber Montana operates as an EWG, so these facilities would move from class 13 with a tax rate of 6%, to class 9 with a tax rate of 12%.
5. Section 1 of the bill also specifies as class 9 property “electrical generation facilities not operated by a centrally assessed electric power utility company that uses the facilities primarily to produce electricity for sale and distribution to its own retail customers at rates regulated by a state agency”. PPL Montana operates all of the Colstrip generating facilities. Puget Sound Power, Avista Corporation, PacifiCorp, and Portland General use their share of the electricity to serve their retail customers. As a result, Colstrip generating assets of these Colstrip partners would move from class 13 with a tax rate of 6%, to class 9 with a tax rate of 12% by virtue of this section (1).
6. This bill is effective on passage and approval, and would apply retroactively to tax year 2005 (FY 2006).
7. The market value of the aforementioned properties totaled \$1,384,262,871 in tax year 2004 (FY 2005).
8. The property moving from class 13 to class 9 is expected to decline slightly (-0.1%) into the future. The market value for the class 13 generation property that will be moved to class 9 is estimated at \$1,382,878,608 for tax year 2005 (FY 2006), and \$1,382,878,608 for tax year 2006 (FY 2007).
9. The table below shows the estimated impacts of SB 519 to the general fund and the university 6-mill account. As the table indicates, by moving the class 13 generation property into class 9 will increase taxable value by approximately \$83 million per year.

SB 519 Estimated Impacts to Generation Property			
<u>Description</u>	<u>Current Law</u>	<u>Under SB 519</u>	
Tax Class	Class 13	Class 9	
Tax Year 2004 (FY 2005) Market Value	1,384,262,871	1,384,262,871	
Forecast Growth Rate	-0.1%	-0.1%	
Fiscal Year 2006			
<u>Description</u>	<u>Current Law</u>	<u>Under SB 519</u>	<u>Fiscal Impact</u>
Tax Year 2005 (FY 2006) Estimated Market Value	1,382,878,608	1,382,878,608	
Taxable Rate	6.0%	12.0%	
Taxable Value	82,972,716	165,945,433	82,972,717
General Fund Taxes (95.53 mills)	7,926,384	15,852,767	7,926,383
State Special Revenue Fund Taxes (University 6 mills)	497,836	995,673	497,837
Fiscal Year 2007			
<u>Description</u>	<u>Current Law</u>	<u>Under SB 519</u>	<u>Fiscal Impact</u>
Tax Year 2006 (FY 2007) Estimated Market Value	1,381,495,729	1,381,495,729	
Taxable Rate	6.0%	12.0%	
Taxable Value	82,889,744	165,779,487	82,889,743
General Fund Taxes (95.53 mills)	7,918,457	15,836,914	7,918,457
State Special Revenue Fund Taxes (University 6 mills)	497,338	994,677	497,339

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Impact on Class 12 Property

10. The new higher tax rate for generation property will increase the taxable rate for class 12 property (railroad and airlines) – which is the average commercial tax rate statewide.
11. The tax rate for class 12 property (railroads and airlines) is a weighted average of the tax rates of class 4 commercial property, and classes 7, 8, 9, and 13 property.
12. It is estimated that projected tax rates for class 12 property would increase from 3.75% to 4.24% in FY 2006, and from 3.69% to 4.18% for FY 2007. The table below shows the estimated increases to the state general fund and the university 6-mill account as a result of this increase in the class 12 tax rate.

Change in Projected Class 12 (Railroad and Airline) Tax Rate			
Fiscal Year 2006			
Description	Current Law	Under SB 519	Fiscal Impact
Market Value (forecast)	1,193,693,570	1,193,693,570	
Taxable Rate (forecast)	3.75%	4.24%	
Taxable Value (forecast)	44,763,509	50,612,608	5,849,099
General Fund Taxes (95.53 mills)	4,276,258	4,835,022	558,764
State Special Revenue Fund Taxes (University 6 mills)	268,581	303,676	35,095
Fiscal Year 2007			
Description	Current Law	Under SB 519	Fiscal Impact
Market Value (forecast)	1,204,436,813	1,204,436,813	
Taxable Rate (OBPP forecast)	3.69%	4.18%	
Taxable Value (OBPP forecast)	44,443,718	50,345,458	5,901,740
General Fund Taxes (95.53 mills)	4,245,708	4,809,502	563,794
State Special Revenue Fund Taxes (University 6 mills)	266,662	302,073	35,411

13. In tax year 2004, the statewide market value in class 12, railroad and airline property was \$1,183,046,155. Class 12, airline and railroad property is expected to grow by 0.9% each year. Class 12 market value is projected to be \$1,193,693,570 (\$1,183,046,155 x 1.009 growth) in tax year 2005 (FY 2006), and \$1,204,436,813 (\$1,193,693,570 x 1.009 growth) in tax year 2006 (FY 2007).
14. As shown in the table, under the proposal class 12 taxable value is anticipated to increase by \$5,849,099 in tax year 2005 (FY 2006), and \$5,901,740 in tax year 2006 (FY 2007).

Property Tax Summary

15. Under SB 519, taxable value is estimated to increase by \$88,821,816 (\$82,972,717 + \$5,849,099) in tax year 2005 (FY 2006), and \$88,791,483 (\$82,889,743 + \$5,901,740) in tax year 2006 (FY 2007).
16. The average mill levy for the state general fund is 95.53 mills (95 mills plus the 1.5 mills levied in five counties).
17. The general fund as a result of the higher taxable values will increase by \$8,485,148 million (\$88,821,816 x 95.53 mills) in FY 2006, and \$8,482,250 (\$88,791,483 x 95.53 mills) in FY 2007.
18. The university 6 mill account will increase by \$532,931 (\$88,821,816 x 6 mills) in FY 2006, and \$532,749 (\$88,791,483 x 6 mills) in FY 2007.

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Office of Public Instruction

19. In FY 2006, the increased property tax values will decrease the number of mills levied in the 32 school districts that are affected by this tax rate increase. This will lower the BASE mills in those districts. For districts that receive state guaranteed tax base aid, the state will not be required to pay GTB on as many mills and will result in a state guaranteed tax base aid savings of \$581,000.
20. The increase in property tax values in tax year 2005 will raise the state guarantee level in FY 2007. This will increase the amount of the guaranteed tax base aid that districts will be eligible to receive from the state. The increased state obligation is \$3.512 million. This additional cost is anticipated to continue into future years.
21. A similar effect to the guaranteed tax base impacts in assumptions 19 and 20 will occur in the county retirement fund. There is currently no funding model for the county retirement fund like there is for the district general fund. Based on the overall size and scope of the retirement levy in comparison to the district general fund, the retirement fund would be approximately 41% of the impact in the district general fund. This would result in a cost savings of \$237,000 in FY 2006 and a cost increase of \$1.433 million in FY 2007 and beyond.

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Expenditures:</u>		
Local Assistance	(\$818,000)	\$4,945,000
<u>Funding of Expenditures:</u>		
General Fund	(\$818,000)	\$4,945,000
<u>Revenues:</u>		
General Fund (01)	\$8,485,148	\$8,482,250
State Special Revenue (02)	\$532,931	\$532,749
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$9,303,148	\$3,537,250
State Special Revenue (02)	\$532,931	\$532,749

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Under 15-10-420, MCA, the average mill levy for local governments and local schools should decrease under the proposal. 15-10-420, MCA, with the exception of “newly taxable property”, allows county and city governments to generate revenue equal to the prior years amount plus one-half the rate of inflation. Since the increase in taxable value does not qualify as “newly taxable property”, local governments (counties and cities) should reduce mill levies as taxable value increases. It is estimated that the affected properties tax burden to counties and cities would increase by \$7,900,000. Under 15-10-420, MCA, this would not be new property tax revenue for counties and cities. Instead, the result would be lower mill levies. The \$7,900,000 would be a property tax savings for owners of other property types in the affected counties and cities.

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The mill levy limitation does not apply to local schools. Under the proposal, it is estimated that the affected property would pay an increase of \$10,200,000 in property taxes to local schools. If local schools decided to lower mill levies to offset the new revenue, the \$10,200,000 would be a property tax savings for other property types in the affected school districts.

LONG-RANGE IMPACTS:

State general fund revenues would be increased by about \$8,500,000 and state general fund expenditures would be increased by about \$5,000,000 each year for the foreseeable future.

TECHNICAL NOTES:

1. The bill contains an internal inconsistency. 15-6-141(1)(c), MCA, as amended in describing property included in class 9 says in part “electrical generation facilities not operated by a centrally assessed electric power utility company that uses the facilities primarily to produce electricity for sale and distribution to its own retail customers at rates regulated by a state agency”. This would mean that such facilities operated by another (non-utility) company are included in class 9. – However, 15-6-156(1)(a), MCA, as amended describes property in class 13 to include “electrical generation facilities of a centrally assessed electric power utility company that uses the facilities primarily to produce electricity for sale and distribution to its own retail customers at rates regulated by a state agency”. This would mean that all such facilities, regardless of who the operator is, are included in class 13. The two sections seem to contradict.